GSW Limited — GSW Limitée Annual Report for the year ended Dec. 31, 1971

GSW

GSW Limited — GSW Limitée

BOARD OF DIRECTORS

R. M. Barford
P. de Gaspé Beaubien
G. M. Farquharson, Q.C.
G. R. Gardiner
Miss M. P. Hyndman, Q.C.
F. R. Johnson
D. S. R. Leighton
J. K. Louden
G. S. MacDonell
R. A. Stevens
Ben Wosk

OFFICERS

G. R. Gardiner, *Chairman*
R. M. Barford, *President and Chief Executive Officer*
R. A. Stevens, *Group Vice-President*
G. S. MacDonell, *Group Vice-President*
F. O. Price, *Vice-President — Manufacturing and Engineering*
M. S. Hartley, *Vice-President — Research and Development*
W. H. Hogg, *Vice-President*
G. S. Dickson, *Vice-President*
L. Hollander, *Vice-President*
G. M. Farquharson, Q.C., *Secretary*

SHARE TRANSFER AGENTS

Preferred Shares, The Canada Trust Company
Common Shares, National Trust Company Limited

BANKERS The Bank of Nova Scotia

AUDITORS Clarkson, Gordon & Co.

GSW LIMITED-GSW LIMITÉE Head Office—
45 St. Clair Ave. West, Toronto 195, Ontario

Report of the Board of Directors

TO THE SHAREHOLDERS

Sales increased from $64,675,000 in 1970 to $99,091,000 in 1971. The bulk of this increase arose from the Moffat operation acquired in January of 1971. However, increases came from all divisions of the company, except Farm Equipment and the U.K. operation.

Profits after extraordinary items increased from $763,000 in 1970 to $2,708,000 in 1971. Before extraordinary items profits increased from $655,000 to $1,536,000.

After provision of preferred dividends, earnings per share after extraordinary items were $1.30 in 1971 and 32¢ in 1970, restated from 27¢. Before extraordinary items, earnings per share were 71¢ in 1971 and 27¢ in 1970, restated from 21¢.

In our last annual report, we stated our first operating priority was to return the Moffat operation to a profitable basis. This was accomplished in 1971. In addition, all operating divisions except the United Kingdom had substantial improvements in operating results. In many of these divisions we saw the first return from the heavy investments made during the past few years in tooling, engineering and facilities.

1971 was a record year for both sales and profits, and we continued during 1971 to invest heavily for the future, with substantially increased amounts spent in tooling, capital equipment and facilities.

Our inventories and receivables remained generally in good control throughout 1971, and by year end the increases in these accounts were approximately proportionate to the volume increases over 1970. As a result, our borrowings were held well within our lines of credit, and combined with lower interest rates in 1971, resulted in lower than expected interest charges for 1971.

ACQUISITIONS: McDonald Appliance Service Limited, the largest independent Canadian appliance service company, was acquired in October of 1971. McDonald's has branches in seven major Canadian cities, over 120 service vehicles, and a fine reputation as a leading service organization. This acquisition complemented ideally GSW's expanding service network, which consists of another nine branches across Canada. It also supports GSW's belief that, as Canada's leading appliance manufacturer, it has an after sale service obligation to provide complete consumer satisfaction with its products.

In January of 1971, we acquired the metal locker business of Westeel-Rosco and relocated it in our new London Building Products factory. This product line fits ideally into our manufacturing and distributing capabilities in the building field.

Your company is actively seeking acquisitions which will assist us in strengthening our manufacturing and marketing abilities. We limit those acquisitions to well defined product areas in which GSW has chosen to compete.

ORGANIZATION AND PERSONNEL: Lou Hollander, General Manager of our Fergus operations, was appointed a Vice-President of the company. At the same time, four components of the Fergus operation became free standing divisions. This is in line with our stated intention of having free standing product and market based divisions, wherever possible.

In January of 1972, Maurice S. Hartley, who has been an "outside" director of GSW for six years, was elected Vice-President, Research and Development. He has a wide experience in product development and a separate R & D Group has been created by your company in Sheridan Park, a research complex located near Toronto.

We felt GSW had now reached a size where it could successfully support such an operation. It is recognized that this is an "investment in the future" and we feel a Canadian company such as GSW must undertake these investments in Canada to properly serve its customers.

With our rapid growth during the past year, we have needed to attract a number of experienced managers to our company and we have succeeded in doing this.

In addition, many of our own managers have been promoted and these men, together with experienced senior managers have acted as trainers for the large number of young Canadians we hired during 1971. They have been hired from Community Colleges, Universities and Graduate Schools, and we plan to continue this program in 1972.

Report of the Board of Directors — continued

MARKETING: During the year, the Mirro Aluminum Cookware Products and Beautyware line of Pantryware, introduced by our Montreal Housewares Division in late 1970 and early 1971, won increasing consumer acceptance. Our Metalwares' product lines from Hamilton were expanded with the addition of office waste containers. Our Pump Division offered wider ranges of products, such as swimming pool equipment. Farm Products were expanded with the addition of new lines of feeding and watering equipment for livestock. The Cropstore silo continued to make progress in its penetration of the market. The Water Heater Division added a 100 gal. electric unit and an improved line of gas heaters.

Our Service Division, through its McDonald operation, is participating in the appliance and TV rental businesses.

Our Appliance Group successfully introduced Moffat laundry equipment and refrigerators manufactured in our London facility.

In addition, an agreement was completed with Corning Glass Works under which Moffat will be the exclusive Canadian manufacturer and distributor of "glass top" cooking appliances.

Our Appliance warehouse operations in Edmonton, Calgary, Moncton, Winnipeg and Montreal were consolidated. Your company now operates 11 warehouses nationally as part of a complete national distribution system in all its divisions.

The strategy of having each division operate its own sales force and distribution operation has been justified by increasing market shares due to prompt and informed customer service.

Worthy of mention is the Farm Equipment Division "Beatty Service Centres" directly serving 15 agricultural communities in Canada with Beatty Farm Sales and Service.

MANUFACTURING: During 1970, your company opened two new plants, renovated one other in 1970 and another in 1971. I am pleased to report that improved quality, cost and customer service resulted in 1971 from each of these moves.

During 1971, our London plant was required to greatly increase its production. It met this challenge and added a completely new product line without excessive disruption.

OUTLOOK: With the exception of our Farm Equipment Division, all our activities are related to consumer housing and convenience within the home. The growing rate of family formation, consumer affluence, and housing demand all mean increasing markets for our products in the 70's. While this demand will probably be uneven from year to year as general economic conditions and government monetary policies change, we feel the underlying demand for our products is strong.

As we seek to meet consumer needs and wants based on careful market research, we are confident that we are well positioned in growth markets and that we have a fine team of people who will work together to serve these growing markets.

Consumer demand has been strong in the last half of 1971, and we expect this demand to continue through 1972. Based on this, and the increasing effectiveness of all our people, we are optimistic about 1972.

The U.K. operation is our greatest problem at the moment, and efforts are being made to correct it in 1972.

Finally, the Board wishes to thank the 3,200 people in GSW who made possible this record year, and who will make possible a sound future for our Canadian company.

On behalf of the Board,

R M Barford

R. M. Barford,
President.

Facts in Brief

GSW LIMITED-GSW LIMITÉE and its subsidiary companies	1971	1970
	($000's except per share data)	
Sales	$99,091	$64,675
Net income before extraordinary item	1,536	655
Net income after extraordinary item	2,708	763
Dividends on preferred shares	125	131
Earnings per common share:		
before extraordinary item	.71	.27
after extraordinary item	1.30	.32
Bank indebtedness	7,532	3,974
Current assets	35,826	23,610
Current liabilities	24,819	14,792
Current ratio	1.4 to 1	1.6 to 1
Working capital	11,007	8,818
Additions to fixed assets	$ 4,577	$ 1,169

Consolidated Statement of Income ($000's)

YEAR ENDED DECEMBER 31, 1971 (with comparative figures for 1970)

GSW LIMITED-GSW LIMITÉE and its subsidiary companies	1971	1970
Net sales	$99,091	$64,675
Less cost of sales, selling and administrative expenses before providing for the undernoted items	94,105	62,048
	4,986	2,627
Interest on long-term debt	251	76
Interest on other loans	707	726
Depreciation and amortization	765	469
	1,723	1,271
Operating income before income taxes and extraordinary items	3,263	1,356
Income taxes	1,727	701
Net income before extraordinary items	1,536	655
Extraordinary income:		
Income tax reduction from application of loss carry-forwards of subsidiary companies (note 8)	1,172	—
Gain on fixed asset disposals — less relocation and moving costs, net of applicable income taxes	—	108
Net income for the year	$ 2,708	$ 763
Earnings per common share before extraordinary item	$ .71	$ .27
Earnings per common share after extraordinary item	$ 1.30	$ .32

(See accompanying notes)

Consolidated Balance Sheet
December 31, 1971 ($000's)

(with comparative figures for 1970)

GSW LIMITED-GSW LIMITÉE and its subsidiary companies (notes 1 and 2)
(Incorporated under the laws of Canada)

ASSETS	1971	1970
Current assets:		
Cash	$ 113	$ 176
Accounts receivable	15,613	9,599
Inventories, valued at the lower of cost and market (note 3)	19,552	13,549
Prepaid expenses and manufacturing supplies	548	286
Total current assets	35,826	23,610
Fixed assets:		
Land, buildings and equipment, at cost	19,641	14,780
Less accumulated depreciation	12,934	11,885
Total fixed assets	6,707	2,895
Other assets:		
Prepaid income taxes	469	617
Goodwill, engineering, tooling and patent costs, less amounts written off	1	1
Total other assets	470	618
Total assets	$43,003	$27,123

On behalf of the Board:

R. M. BARFORD, Director

R. A. STEVENS, Director

LIABILITIES AND SHAREHOLDERS' EQUITY			1971	1970
Current liabilities:				
Bank indebtedness (note 4)			$ 7,532	$ 3,974
Accounts payable			14,984	10,008
Income and other taxes payable			1,948	625
Dividends payable			31	32
Long-term debt due within one year			324	153
Total current liabilities			24,819	14,792
Provision for warranties			1,400	800
Long-term debt (note 5)			3,810	912
Total liabilities			30,029	16,504
Shareholders' equity:				
Share capital (notes 6 and 7) —				
5% cumulative preferred shares of $100 each redeemable at $105				
Authorized, less redeemed: 24,617 shares				
Outstanding: 24,617 shares			2,462	2,577
Common shares without par value —				
	Authorized	Issued		
Class A	684,500	648,176	719	714
Class B	10,000,000	1,342,852	1,490	1,427
	10,684,500	1,991,028	2,209	2,141
Contributed surplus			304	270
Retained earnings			7,999	5,631
Total shareholders' equity			12,974	10,619
Total liabilities and shareholders' equity			$43,003	$27,123

(See accompanying notes)

Consolidated Statements of Retained Earnings and Contributed Surplus ($000's)

YEAR ENDED DECEMBER 31, 1971 (with comparative figures for 1970)
GSW LIMITED-GSW LIMITÉE and its subsidiary companies

	1971	1970
RETAINED EARNINGS		
Balance, beginning of year,		
As previously reported	$ 5,709	$ 5,187
Deduct cumulative effect on prior years of change in method of valuation of inventories (note 3)	78	188
As restated	5,631	4,999
Add net income for the year	2,708	763
	8,339	5,762
Deduct:		
Dividends on preferred shares	125	131
Premium (net) on purchase of subsidiaries (note 1)	215	—
Balance, end of year	$ 7,999	$ 5,631
CONTRIBUTED SURPLUS		
Balance, beginning of year	$ 270	$ 215
Add profit on purchase of preferred shares (note 6)	34	55
Balance, end of year	$ 304	$ 270

(See accompanying notes)

Consolidated Statement of Source and Application of Funds ($000's)

YEAR ENDED DECEMBER 31, 1971 (with comparative figures for 1970)
GSW LIMITED-GSW LIMITÉE and its subsidiary companies

	1971	1970
Funds were derived from:		
Operations —		
Net income for the year	$ 2,708	$ 763
Less dividend on preferred shares	125	131
Income retained	2,583	632
Depreciation	765	469
Reduction in prepaid income taxes	148	38
Provision for warranties	23	—
Funds from operations	3,519	1,139
Mortgages payable	3,400	—
Warranty reserve assumed on acquisition of subsidiary	577	—
Proceeds on disposal of fixed assets	—	741
Issue of common shares	68	16
Reduction of non-cash net current assets	—	1,846
Increase in bank indebtedness (net of cash)	3,621	—
	$11,185	$ 3,742
Funds were applied to:		
Purchase of fixed assets (including $3,761 on acquisition of subsidiaries)	4,577	1,169
Increase non-cash net current assets (including $5,420 on acquisition of subsidiaries)	5,810	—
Pay premium (net) over book value of subsidiaries acquired	215	—
Reduce long-term debt	502	162
Redeem preferred shares (net)	81	119
Reduce bank indebtedness (net of cash)	—	2,292
	$11,185	$ 3,742

(See accompanying notes)

Notes to Consolidated Financial Statements

GSW LIMITED-GSW LIMITÉE

DECEMBER 31,1971

1. ACQUISITION OF SUBSIDIARIES

At the beginning of the year the company purchased all the shares of Moffats Limited (now renamed GSW Appliances Limited) and the results of that company's operations for the year have been included in the consolidated financial statements. On October 31, 1971 the company purchased all the shares of McDonald Appliance Service Limited, and the results of that company's operations for the two months following acquisition have been included in the consolidated financial statements. These acquisitions have been accounted for as purchases, as follows:

Net tangible assets acquired at the book value of the seller, which is also fair value*	$9,213,000
Premium ascribed to goodwill (net)	215,000
	$9,428,000
Consideration given —	
Cash, bank loans and current accounts payable*	$6,028,000
6% mortgages payable	3,400,000
	$9,428,000

The net premium ascribed to goodwill has been charged to retained earnings.

* In the case of Moffats Limited, the valuations of certain of the assets and liabilities upon which the purchase price is based have not as yet been finally agreed on. Any adjustment to the price will be recorded in retained earnings when a settlement has been reached.

2. BASIS OF CONSOLIDATION

The consolidated financial statements reflect a consolidation of GSW Limited-GSW Limitée, GSW Appliances Limited, McDonald Appliance Service Limited, The Easy Washing Machine Company Limited, Duro Aluminum Limited, Knight Industries Limited, GSW Limited (U.K.), Sta-Rite Industries Limited, and several small subsidiaries. The consolidated balance sheet reflects the translation of pounds sterling into Canadian dollars at £1 equals $2.60.

3. CHANGE IN METHOD OF VALUATION OF INVENTORIES

During the year, the company changed its method of applying fixed manufacturing overhead costs to the valuation of inventories. As a result of making this change, the net income for the year 1971 has been reduced by $24,000. The financial statements for 1970 have been restated to incorporate retroactively the effect of making this change; this has resulted in an increase in reported net income for 1970 of $110,000.

4. BANK INDEBTEDNESS

The bank borrowings are secured by a simple debenture containing a fixed charge on fixed assets and a floating charge on other assets.

5. LONG-TERM DEBT

The long-term debt consists of:	1971	1970
	($000's)	
6% mortgages payable, due December 31, 1981	$ 3,230	—
5% series "B" first mortgage bonds, due April 15, 1973	904	$ 1,065
	4,134	1,065
Less amounts due within one year	324	153
	$ 3,810	$ 912

Annual principal repayments on the 6% mortgages payable amount to $170,000 to 1980, with a final payment of $1,700,000 on December 31, 1981.

6. SHARE CAPITAL

During the year 1,149 preferred shares having a par value of $115,000 were purchased for cancellation at a total consideration of $81,000. The $34,000 excess of par value over the purchase price is reflected as an increase in contributed surplus.

The class "A" and class "B" common shares are equal in all respects except that the class "A" common shares have 100 votes per share and the class "B" common shares have one vote per share. A holder of class "A" common shares, at any time may convert them into an equal number of class "B" common shares. During the year 15,500 class "A" shares were converted into class "B" shares.

7. STOCK OPTIONS

During 1971, the company issued 5,000 class "A" and 10,000 class "B" common shares for a total consideration of $68,000 to employees who had been granted options to purchase these shares under the original stock option plan. Under the terms of that plan, stock options have been granted on units of one class "A" and two class "B" common shares, at prices of $8.00 and $15.25 per unit. During the year options on 2,000 class "A" and 4,000 class "B" common shares were cancelled. As at December 31, 1971 options on 14,000 class "A" and 28,000 class "B" common shares have been granted but not exercised under the original plan.

At the 1971 annual meeting shareholders approved the creation of a new incentive stock option plan for employees of the company in respect of 25,000 class "B" common shares. Under the terms of the plan options may be granted to employees to acquire shares at the market price at the date the option is granted. Options under this plan must be exercised within five years of the granting of the option and in any event not later than September 30, 1980. During the year options were granted on 22,500 class "B" shares as follows:

15,000 shares at $8.00 per share, and
7,500 shares at $8.75 per share.

The exercise of these options would not materially dilute earnings per share.

8. TAX REDUCTION

Further reductions in income taxes otherwise payable as a result of loss carry forwards in subsidiary companies are dependent on future operating incomes.

9. PENSION PLANS

There are a number of pension plans for present and retired employees of the company and its subsidiaries. Based upon the most recent actuarial valuations (December 31, 1970) the total estimated unfunded liabilities as at December 31, 1971 amount to approximately $2,600,000 which amount is being amortized principally over the period ended December 31, 1989.

The increase in the total liability over 1970 is related to the pension plan of Moffats Limited (now GSW Appliances Limited) and the cost of past service benefits for employees of Sta-Rite Industries Limited added to the plan in 1971.

10. REMUNERATION OF DIRECTORS AND OFFICERS

In accordance with the requirements of section 122.2 of the Canada Corporations Act, the following information is reported:

	1971	1970
(a) The number of persons who served as directors at any time in 1971	12	16
Their aggregate remuneration as directors	$ 17,000	$ 25,000
(b) The number of persons who served as officers at any time in 1971	11	13
Their aggregate remuneration as officers	$440,000	$347,000
(c) The number of officers who were also directors in 1971	5	7

No amounts were paid by subsidiary companies to officers or directors of GSW Limited-GSW Limitée.

11. LEASE AGREEMENTS

Under the terms of various lease agreements the company is obligated to annual rental payments of $300,000.

Auditors' Report

To the Shareholders of

GSW Limited-GSW Limitée

We have examined the consolidated balance sheet of GSW Limited-GSW Limitée and its subsidiary companies as at December 31, 1971 and the consolidated statements of income, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in the method of valuation of inventories as explained in note 3 to the financial statements, with which change we concur.

Toronto, Canada,
February 24, 1972.

Clarkson, Gordon & Co.
Chartered Accountants

Divisions of the Company and the products they market

Robert A. Stevens — Group Vice-President — General Products Group

HOUSEWARES DIVISION
Gene Webber, General Manager
Montreal, P.Q.

stainless steel cookware
aluminum cookware
pantryware
enamel cookware
sheet iron cookware

WATER HEATER DIVISION
Bill Arbuthnot, General Manager
London, Ont. and Dundas, Ont.

electric water heaters
gas water heaters
glass-lined range boilers
galvanized range boilers

SERVICE DIVISION
Jim Alexander, General Manager
Head Office — Weston, Ont.

GSW Home Service
McDonald Appliance Service
replacement parts for appliances
appliance home service
appliance and T.V. rentals

METALWARES and BUILDING PRODUCTS DIVISIONS
Keith Pifer, General Manager

Metalwares, Hamilton, Ont.
galvanized ware
dairy pails
stove pipe and elbows
roof drainage
waste paper baskets

Building Products — London, Ont.
toilet partitions
custom steel doors
standard doors and frames
metal lockers
fire doors

UK DIVISION
Hatfield, England
H. Nuttall, Managing Director

warm air gas and electric furnaces
coin-operated gas dryers
coin-operated laundry equipment
gas space heaters

FERGUS OPERATIONS — Lou Hollander, Vice-President and General Manager

FARM EQUIPMENT DIVISION
Paul Rodgers, General Manager
Fergus, Ont.

mechanical feeding equipment
silo unloaders
gutter cleaners
liquid manure spreaders and equipment
steel pens and stalls
vitreous enamel steel silos

TRAILER DIVISION
Fergus, Ont.

boat and snowmobile trailers

PUMP DIVISION
Norm Smith, General Manager
Fergus, Ont. and Ajax, Ont.

Beatty, McDougall and Sta-Rite
domestic water pumps, tanks
and accessories
swimming pool equipment

INDUSTRIAL DIVISION
Fergus, Ont.

wringer washers
Lovell wringers
components for laundry equipment

George S. MacDonell — Group Vice-President — Appliance Group

McCLARY • EASY • BEATTY • MOFFAT • GSW
London, Fergus, Weston, Ontario

electric ranges
gas ranges
refrigerators
dishwashers
chest freezers

automatic washers
dryers
wringer washers
twin-tub washers
air conditioners

GSW